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NEW STANDARD DEFINES MAS SERVICES

Every CPA in public practice should be aware of the recently issued Statement on Standards for Management Advisory Services no. 1 (SSMAS 1), which defines MAS, MAS engagements and MAS consultations. SSMAS 1, in effect, acknowledges the reality that all practicing CPAs serve as business advisers and for some clients may be their principal adviser. By defining MAS consultations as a service subject to professional standards, SSMAS 1 enhances the image of the local practitioner. Now it is clear that all CPA firms, not just those with a separately structured division, do provide MAS services to clients.

Client need for advice and assistance in today's complex business environment is growing and CPAs are, or should be, in a position to meet that need. The mere existence of SSMAS 1 may help some practitioners recognize (1) the potential for increasing their services in response to these needs, and (2) the need to hone their MAS skills, for advice on business and management matters is MAS and can have just as much significance and value to a client as an extensive MAS study or project.

The March 1981 exposure draft of SSMAS 1 contained an overall definition of MAS and defined the two categories of MAS: MAS engagements and MAS consultations (previously known as "informal advice"). It also identified nine standards, each of which were applicable to both forms of MAS. The initial reaction of some practitioners was concern that the application of these standards to informal advice would result in burdening the practitioner with requirements, such as documentation, which would make it difficult to provide advice to clients.

This concern existed even though the letter accompanying the exposure draft explicitly stated that the draft did not address the subject of documentation and further stated that any requirements that would tend to restrict the informal nature of business advice would be undesirable.

Five of the nine standards included in the exposure draft were the general standards in Rule 201 of the AICPA Rules of Conduct, which apply to all professional services including MAS engagements and MAS consultations. These general standards were included in the exposure draft because future SSMASs may interpret Rule 201 under the authority given by AICPA council, and it seemed appropriate to include those standards in the SSMAS series of documents.

Some readers seemed to view these five standards as new, perhaps because they were paraphrased in the exposure draft rather than being restated as they appear in Rule 201. To correct this, the final statement clearly identifies the Rule 201 standards and quotes them verbatim. This makes it clear that they represent existing standards of the profession and not new MAS standards. These five general standards deal with professional competence, due professional care, planning and supervision, sufficient relevant data and forecasts.

What's Inside . . .

Four new technical standards also appeared in the March 1981 exposure draft. They dealt with the role of the MAS practitioner, understanding with client, client benefit and communication of results. The only thing "new" about these standards, which originally appeared in a much more extensive discussion in a 1974 nonbinding AICPA statement on MAS practice standards, was that these four standards were to apply to MAS consultations as well as MAS engagements. The MAS executive committee believed these four brief standards were constructed carefully to recognize this fact.

However, based on comments on the exposure draft, the MAS executive committee made several changes. First, words were added to the standards on "understanding with client" and "communication of results" to make it clear that these standards could be satisfied orally or in writing. Some interpreted the original wording as requiring written communication. This was not the intent of the draft.

The language used in the standard on "role of the MAS practitioner" was also changed to make a clear distinction between the role of the MAS practitioner, which is that of adviser, and the role of management. If, as is sometimes the case, a practitioner does assume a management role, such as authorizing client transactions or activities, the practitioner would clearly not be acting in the role of a MAS practitioner (adviser) and the MAS technical standards would not apply to such services. However, the general standards under Rule 201 would apply as they do to all services by CPAs.

Finally, it was evident from the comments on the exposure draft that practitioners had difficulty understanding the intent of the four proposed technical standards as they applied to consultations. As a result, the MAS executive committee made the four technical standards as they now appear in SSMAS 1 applicable only to MAS engagements and not to MAS consultations. Technical standards for MAS consultations will be proposed at a later date in a separate exposure draft on MAS consultations, which will explain the proposed standards in more depth. A separate document on MAS consultations, as well as one on MAS engagements, is expected to be exposed to AICPA members before the effective date of SSMAS 1, which is May 1, 1982.

In summary, issuance of SSMAS 1 is a milestone for the profession and not a millstone as some feared. At the same time, it is recognized that some members do have concerns about the direction of future documents. We urge them to carefully study and comment on the exposure drafts of SSMAS 2 and SSMAS 3. Practitioners' comments are always considered, as evidenced by changes made in SSMAS 1.

–by Merle S. Elliot, CPA
Hagerstown, Maryland

Editor's note: Mr. Elliot is chairman of the AICPA's MAS executive committee.

A Guide for Conducting Peer Reviews

To help those involved in conducting peer reviews, the AICPA will present a special course that details the various considerations and procedures to follow to ensure that a review will be efficient and effective and meet the requirements of both sections of the division for CPA firms. The program highlights these subjects:

- ☐ The year in review—1981 changes to the peer review process.
- ☐ Planning considerations of the peer review.
- ☐ Performing and documenting the review.
- ☐ Reporting review findings.

The course will be presented in San Francisco on Wednesday, April 28 and in Washington, D.C. on Friday, April 30. Recommended CPE credit is eight hours and the registration fee is $100. For further information, contact Mathew Malok, AICPA CPE division (212) 575-3848.

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The AICPA MAP Conferences

The first 1982 practice management conference in the AICPA's annual series will be held at the Las Vegas Hilton on July 22-23. The topic is firm management and administration and participants will hear about such things as the need for effective management information systems and setting accountability standards. There will also be sessions on using small computers in a local firm, how to avoid malpractice problems and how to manage a tax practice.

The second conference is on practice growth and development and will be held at the Hyatt Regency Crystal City, Washington, D.C., on October 21-22. This will deal with salesmanship, controllership and implementing a practice development program. Concurrent sessions at this conference will be on developing referrals, communication with clients and using a public relations firm.

The third and fourth conferences will be at the Hyatt Regency Woodfield, Chicago, on November 8-9 and on November 11-12 respectively. Participants at the third conference will hear presentations on and be able to discuss various aspects of partnerships and professional corporations. The sessions will be on recognizing differences and communication between partners, admitting non-CPA partners, planning your retirement and improving your partnership agreement.

The general sessions at the fourth conference, which is on personnel management, will range from interviewing students, motivating staff members for better performance and transforming them into partners. The concurrent sessions at this conference will cover the legal aspects of personnel management, employing paraprofessionals and staff compensation.

A brochure will be mailed to all members in public practice in about a month. For additional information, call the AICPA meetings department.

MAP Conference Survey

To help the Institute's management of an accounting practice committee develop conferences and seminars that best meet your practice management needs, would you please take a minute to respond to the following survey?

1. What is
   Your position in your firm?______
   Your firm's annual gross fees?______
   Your firm's total staff?______
   The state you are from?______
2. What are the biggest problems in managing your firm? Please be specific.______
3. Which topics would you like covered at a practice management conference? Please be specific.______
4. Are travel and hotel costs significant factors when deciding whether to attend an AICPA national conference?______
   How much money per night are you willing to spend for a hotel room?______
5. Would you prefer a
   Convenient airport hotel that is less expensive than one downtown?______
   Downtown hotel offering easy access to tours and local attractions?______
   Resort hotel in order to combine a vacation with a conference?______
6. In which cities/resorts do you prefer a MAP conference be held?______
7. Which
   Month do you prefer a MAP conference be held?______
   Particular time during that month do you prefer?______
8. Do you prefer
   Two two-day conferences held the same week with a free day in between them?______
   A single two-day conference?______
   A one-day conference?______
9. Would you prefer to have a MAP conference held immediately following or preceding one of the following conferences?
   Computer ___
   Tax ___
   Estate and gift tax planning ___
   Management advisory services (MAS) ___
   Private companies practice section (PCPS) ___
   Other (please indicate) ___
10. Please indicate if you have attended one of the following MAP conferences.
    AICPA______State society______
11. If you have attended either of the above, please indicate if you would do so again.

	Yes/No	*Reason*
AICPA	___	______
State society	___	______
Both	___	______

12. If you have not attended an AICPA or state society MAP conference, please indicate reasons.______
13. Signature (optional)______
    Firm name and address______

Please send your reply to Nancy Myers, director, industry and practice management division, AICPA, 1211 Avenue of the Americas, New York, New York 10036.

Is Partner Net Income Really Increasing?

The first exhibit in the article "Practice Management Profile" in the June 1981 issue of the *Practicing CPA* (exhibit 1 reprinted below) shows what appears to be substantial increases in the average net incomes of partners in public accounting firms during the period 1972-80. The data used in the article is generated by an annual survey conducted by the Texas Society of CPAs. It is not adjusted for the effects of inflation and shows, for example, in exhibit 1, that a partner in a small, nonnational firm could, on average, have expected to see his net income rise from $26,048 in 1972 to $39,354 in 1980.

Exhibit 1

Average* Net Income Per Partner 1972-1980
Nominal Dollars

	Individual	*Non-national*			*National*
		Small	*Medium*	*Large*	
**...	$42,417	$38,796	$47,145	$51,195	$ —
1972 ***..	24,342	26,048	31,047	36,311	50,915
	45,382	41,352	49,864	55,367	—
1973	25,641	25,987	30,496	30,084	76,926
	57,155	40,804	49,687	63,680	—
1974	28,784	26,245	33,446	42,991	84,711
	51,631	45,858	61,389	68,061	—
1975	27,441	29,027	38,708	45,423	86,784
	54,306	44,465	65,264	72,820	150,287
1976	29,598	28,565	41,002	49,890	96,370
	58,242	46,385	67,293	76,382	128,439
1977	32,603	30,159	41,577	52,310	88,596
	60,932	53,885	83,003	86,546	125,228
1978	33,567	33,900	48,294	59,298	96,154
	68,174	56,440	88,077	89,402	165,542
1979	36,907	35,536	52,583	63,339	103,592
	71,931	61,662	85,332	99,011	189,040
1980	39,816	39,354	55,462	70,349	120,646

*Average was calculated by dividing total office net income by total number of partners. Home and regional overhead may or may not be included in responses.

Replies from respondent firms were divided by the number of partners, totaled for each size group and divided by the number of firms in each group to arrive at the average.

**Top row is average of the respondents in the upper 25 percent.

***Bottom row is average of all respondents.

Exhibit 2 in this article shows what happens when this data is adjusted for the effects of inflation. In this exhibit, the overall consumer price index (base year-1967) was used to deflate the amounts. Now, the partner in a small, nonnational firm would, on average, expect 1980 net income to be $17,429 in inflation-adjusted dollars rather than the $39,354 in nominal dollars.

Exhibit 2

Average Net Income Per Partner 1972-1980
Consumer Price Index (Base Year-1967)

	Individual	*Non-national*			*National*
		Small	*Medium*	*Large*	
	$33,852	$30,962	$37,626	$40,858	$ —
1972	19,427	20,789	24,778	28,979	40,634
	34,096	31,068	37,464	41,598	—
1973	19,264	19,524	22,912	22,603	57,796
	38,697	27,626	33,640	43,114	—
1974	19,488	17,769	22,645	29,107	57,353
	32,029	28,448	38,083	42,221	—
1975	17,023	18,007	24,012	28,178	53,836
	31,851	26,079	38,278	42,710	88,145
1976	17,360	16,754	24,048	29,261	56,522
	32,089	25,556	37,076	42,084	70,765
1977	17,963	16,617	22,907	28,821	48,813
	31,183	27,577	42,479	44,292	64,088
1978	17,179	17,349	24,715	30,347	49,209
	31,359	25,961	40,514	41,123	76,146
1979	16,977	16,346	24,187	29,135	47,650
	31,856	27,308	37,791	43,849	83,720
1980	17,633	17,429	24,562	31,155	53,430

Exhibit 3

Average Net Income Per Partner 1972-1980
Consumer Price Index (Base Year-1967)
—Services

	Individual	*Non-national*			*National*
		Small	*Medium*	*Large*	
	$31,821	$29,104	$35,368	$38,406	$—
1972	18,261	19,541	23,291	27,240	38,196
	32,625	29,728	35,848	39,804	—
1973	18,434	18,682	21,924	21,628	55,303
	37,577	26,827	32,667	41,867	—
1974	18,924	17,255	21,989	28,265	55,694
	30,991	27,526	36,848	40,853	—
1975	16,471	17,423	23,234	27,265	52,091
	30,103	24,648	36,177	40,366	83,308
1976	16,407	15,834	22,728	27,655	53,420
	29,975	23,873	34,634	39,311	66,103
1977	16,780	15,522	21,398	26,922	45,598
	28,891	25,550	39,357	41,037	59,378
1978	15,916	16,074	22,899	28,117	45,592
	29,122	24,109	37,624	38,190	70,714
1979	15,765	15,180	22,462	27,056	44,251
	26,612	22,812	31,569	36,630	69,937
1980	14,730	14,559	20,519	26,026	44,634

It is possible that the overall consumer price index is not the best deflator to use for this purpose. Exhibit 3 shows the same data adjusted by a different index—the CPI services (medical and professional). In this example, the partner in a small, nonnational firm would, on average, expect 1980 net income to be $14,559 in inflation-adjusted dollars rather than the $39,354 in nominal dollars.

Regardless of the consumer price index used, it is evident that adjusting the data for inflation reveals a stable or slightly declining real income. Perhaps the effects of competition, supply and demand are interacting to create an economic climate in which little, if any, increase in real income can be achieved by partners. If this is so, a CPA's services may be a real bargain to clients.

– by Terry L. Campbell, DBA, CPA, CMA
and Jane K. Butt, MS, CPA
University of Central Florida

Prohibited Forms of Advertising and Solicitation

Rule 502, "Advertising and Other Forms of Solicitation," of the AICPA Code of Professional Ethics provides that "A member shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive." Interpretation 502-2 of the Code titled "False, Misleading or Deceptive Acts" was recently modified and provides examples of activities that are prohibited under Rule 502.

For instance, members' solicitation and advertising activities may not

- "Create false or unjustified expectations of favorable results." As an example, members should not state to clients that the fees for management advisory services that can be provided will be more than made up by increased client profits unless it is certain that this result will take place.
- "Imply the ability to influence any court, tribunal, regulatory agency, or similar body or official." A member should be very circumspect in telling clients that various government officials are friends or that the firm has clout with a government agency.
- "Consist of self-laudatory statements that are not based on verifiable facts." If members include self-laudatory statements in promotional activities or materials, they should be in a position to support such statements with objective, verifiable documentation. The professional ethics division of the AICPA and state society professional ethics committees will investigate complaints received which allege that a member has made a false, misleading or deceptive self-laudatory statement in an advertisement or solicitation activity. Holding out to be an expert or specialist in any area is considered to be self-laudatory.
- "Make comparisons with other CPAs that are not based on verifiable fact." If comparisons are utilized in promotional activities, members should be in a position to support such statements. If a member is not certain that the supporting documentation that could be provided will be satisfactory, it should be considered whether the statement is appropriate.
- "Contain testimonials or endorsements." A total prohibition exists regarding the use of any testimonial or endorsement by a client in a member's promotional activities. Do not use them.
- "Contain a representation that specific professional services in current or future periods will be performed for a stated fee, estimated fee or fee range when it was likely, at the time of the representation that such fees would be substantially increased and that the prospective client was not advised of that likelihood."

  As an example, if a member quotes a specific or estimated fee or fee range to a client prior to commencing an engagement, the client should be told that that such fee might be substantially increased by the time the engagement is completed if this possibility is likely at the time of the original fee quotation.
- "Contain any other representation that would be likely to cause a reasonable person to misunderstand or be deceived."

If a member is in doubt as to whether an advertisement, promotional literature or specific solicitation activity is consistent with Rule 202, the state society professional ethics committee or the AICPA professional ethics division should be contacted.

This article is based on staff responses to ethics inquiries and is not an official pronouncement of the professional ethics executive committee or of the AICPA. Also, it does not address requirements of other regulatory bodies.

1982 Small Firm Conference

In order to reduce travel time and expense for practitioners, the AICPA will hold its second annual small-firm conference, with the same speakers and topics, on two dates in two different locations: August 12-13 in Denver, Colorado, and September 30-October 1 in Atlanta, Georgia.

The program, which is planned by the Institute's management of an accounting practice committee, focuses on interests and problems common to all small firms and will probably appeal particularly to sole practitioners and firms with two to three partners.

Discussion topics include

- ☐ *Setting professional fees* — how to value your firm's services.
- ☐ *Staff utilization* — how to get maximum productivity from all staff.
- ☐ *Microcomputers* — how to select and use them for firm management and client services.
- ☐ *Mergers and acquisitions* — what to look for and look out for.
- ☐ *Profit planning and client development* — how to analyze and project where your revenue is and should be coming from; attracting new clients.

In addition, evening discussion sessions will be held, some to expand on general-session topics and others on entirely new subjects. These will be led by a moderator or panel of discussion leaders.

A brochure and registration information will be mailed to members at a later date. Meanwhile, mark these dates on your calendar. For further information, call the AICPA's industry and practice management division (212) 575-6441.

The PCPS Speaks Out for Small Firms

One objective of the private companies practice section (PCPS) of the AICPA's division for CPA firms is to provide a way for its members to make known their views on professional matters, including the establishment of technical standards. With this in mind, the section created a technical issues committee (TIC) early in 1980. It is charged with reviewing projects and proposals of other Institute divisions and the FASB and commenting on those that it determines would have a significant adverse impact on private companies and their CPAs. The TIC has reviewed over 160 issues since its inception and has formally commented about 12 times.

The committee is also completing its "Sunset Review of Accounting Principles" which is expected to be issued during the first quarter of 1982. The aim of this study is to identify significant measurement and disclosure requirements of GAAP that are believed to be either not relevant to the financial statements of most small- and medium-size privately owned businesses or do not provide sufficient benefits to the users of those statements to justify the costs of applying them. The report is being submitted to the special committee on accounting standards overload. Areas that will be identified in the report tentatively include

- ☐ Deferred income taxes.
- ☐ Leases.
- ☐ Capitalization of interest.
- ☐ Imputed interest.
- ☐ Compensated absences.
- ☐ Business combinations.
- ☐ Troubled debt restructurings.
- ☐ Research and development costs.
- ☐ Discontinued operations.
- ☐ Tax benefit of operating loss carryforward.
- ☐ Investment tax credit.

The "Sunset Review of Accounting Principles" will be among the issues discussed by members of the TIC at this year's PCPS conference which will be held on April 25-27 at the Hyatt Regency Hotel in San Francisco. Other items on the conference program include discussions of the audit problems of small businesses, peer review considerations and experiences and a report of the special committee to study accounting standards overload. Participants will be able to exchange ideas and ask questions of various committee members at small discussion groups and spend an afternoon on practice management topics.

The registration fee for the two-day conference is $195. Contact the AICPA meetings department at (212) 575-6451 for further details.

Book Early for the Quality of Life Conference

If you are planning to attend the AICPA's Quality of Life conference in Scottsdale, Arizona on May 16-18, you should register as soon as possible. The hotel reports that rooms might be scarce and they might be booked early in April.

To get a room at the group rate, call the reservations department at Marriott's Mountain Shadows (602) 948-7111 and mention the conference.

Valuing an Accounting Practice (Part 2)

In a presentation at an AICPA management of an accounting practice conference on partnerships and professional corporations in Denver last year, David F. Wentworth, a Davenport, Iowa CPA, spoke about valuing the intangible assets of an accounting firm, particularly in merger and acquisition situations. The following is the second of two articles (the first appeared last month) based on that presentation.

After reviewing the financial and other criteria of a practice being considered for acquisition, a comparison should be made of the partner ratios of the acquiring and selling firms as this can affect the valuation. In determining the intangible value of a firm, the key information needed is fee volume per partner, individual partner's income and, sometimes, the compensation level of the top nonpartners. Although accountants are certainly aware of the effect of removing a new partner's compensation from expense on the partnership's net income and on the percent of income to volume, there is often doubt as to the procedure to follow in order to compare firms with different partner structures. In this regard, the following illustration may be of help.

In the example below, the respective values of firms B and C are apparently 73.8 percent and 112.5 percent of firm A. In reality, the total volume of different practices will never be identical, as they are in this example, but by using the same procedure of working with fee volume, the relative values of a dollar of volume for the practices being compared can be computed. If the transaction is a true merger, the basis exists for equitably assigning intangible value to the partners of the merging firms. If it is an acquisition, the acquiring firm is in a better position to establish the price and explain its logic to the sellers.

The exhibit also shows an alternative intangible value computation which is probably more of a textbook approach. Using this method, an appropriate amount for owners' salaries is subtracted from owners' total income and the remaining amount is multiplied by an appropriate figure to establish the intangible value. The problem with this method is determining the appropriate salaries and multiples. Whatever procedure is used keep in mind that some practices, particularly

Illustration Comparing Intangible Values of Firms with Different Partner Ratios

	Firm A	*Firm B*	*Firm C*
Actual number of partners	4	7	3
Net services	$1,000,000	$1,000,000	$1,000,000
Partner net income	400,000	400,000	400,000
Percentage of net income to net services	40	40	40
Average per partner			
Net services	$ 250,000	$ 142,857	$ 333,333
Net income	100,000	57,143	133,333
Firm B and C pro forma adjustments:			
Number of partners: To adjust to $250,000 net services per partner		(3)	1
Partner net income adjustments:			
Income of three lowest partners		(105,000)	
Compensation of top manager			50,000
Pro forma net income	400,000	295,000	450,000
Pro forma percentage of net income to net services	40	29.5	45
A) Relative value of firms B and C to firm A		.7375	1.125
Alternative computation of intangible value:			
Pro forma net income	$ 400,000	$ 295,000	$ 450,000
Assumed salary of the four partners	200,000	200,000	200,000
Net income after provision for salary	$ 200,000	$ 95,000	$ 250,000
Times multiple of five	1,000,000	475,000	1,250,000
B) Relative value of firms B and C to firm A		.475	1.25

very small or unusual ones don't fit any overall formula. One must still use one's business instinct and common sense.

One question that always comes up in the transfer of a practice is whether existing or future volume should be used to establish the price. Acquiring firms usually prefer current volume in the belief that future increases will come mostly from their efforts. And they often want to make installment payments on the lesser of present or future annual volume. This puts the burden of client retention on the former owners. If the acquiring firm is one of substance and good reputation, the sellers should have little concern over the "lesser of" provision as future fees will almost always exceed the starting base. However, if the acquiring firm does not have a demonstrated ability to build on a new or expanded practice, the sellers will probably insist on a guarantee based on their present volume. In any event, if the computation of future fees is part of the agreement, the sellers have a logical right to insist that the fee computation be on the clients as a group as opposed to applying it on a client-by-client basis. There will always be some loss of clients but this should be more than made up by additional services to the majority of clients who are retained.

Sometimes it seems to make sense to both parties that the seller receive a percentage of fees from new clients introduced by him whether or not he continues in the practice. Before entering into such an agreement, however, the acquiring firm should carefully consider whether or not it prefers that the seller retire completely from the practice as soon as possible, and the opposite effect that this arrangement might have on what it really wants. As an alternative, new clients could be added to the group of beginning clients which form the base against which future annual fees are compared.

There is probably an intangible value in most well-managed accounting practices that can be measured to a considerable degree. To minimize the possibility of future disputes, partners should reach an agreement on the intangible value of the partnership and on how it is to be used in the firm. Such agreements should be monitored and changed if affected by new developments. Keep in mind that as with the transfer of all assets, in the final analysis, the marketplace will prevail.

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